annual report

2007

SMIS Corporation Berhad

(491857-V)

CONTENTS

Group Structure

SMIS Corporation Berhad

100%	GRAND CARPET INDUSTRIES SDN. BHD.
100%	SANYCO GRAND INDUSTRIES SDN. BHD.
60%	SUGIHARA GRAND INDUSTRIES SDN. BHD.
100%	MACHINERY & INDUSTRIAL SUPPLIES SDN. BHD.
66.25%	CLEON TECHNOLOGY SDN. BHD.
61.39%	KYOTO ENERGY PTE. LTD.

Corporate Information

Board of Directors

Mohamed Ghazali bin Kamal Baharein
(Independent Non-Executive Director)
(Chairman)

Mohd Riani bin Osman (Executive Director)

Ng Wai Kee (Executive Director)

Yap Siew Foong (Executive Director)

Cham Bee Sim (Executive Director)

Danny Ng Siew L'Leong
(Senior Independent Non-Executive Director)

Pauline Teh @ Pauline Teh Abdullah
(Independent Non-Executive Director)

Foo Lee Khean
(Independent Non-Executive Director)
Appointed on 26 November 2007

Audit Committee

Danny Ng Siew L'Leong
(Senior Independent Non-Executive Director)
(Chairman)

Pauline Teh @ Pauline Teh Abdullah
(Independent Non-Executive Director)

Foo Lee Khean
(Independent Non-Executive Director)
Appointed on 26 November 2007

Nomination Committee

Danny Ng Siew L'Leong (Chairman)

Pauline Teh @ Pauline Teh Abdullah

Mohamed Ghazali bin Kamal Baharein

Remuneration Committee

Mohamed Ghazali bin Kamal Baharein (Chairman)

Danny Ng Siew L'Leong

Pauline Teh @ Pauline Teh Abdullah

Ng Wai Kee

Company Secretaries

Choong Lee Wah (MAICSA 7019418)

Liew Irene (MAICSA 7022609)

Registered Office

Lot 6.05, Level 6, KPMG Tower, 8 First Avenue,
Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan.
Tel: 03-7720 1188 Fax: 03-7720 1111

Auditors

KPMG, Chartered Accountants
Wisma KPMG, Jalan Dungun, Damansara Heights,
50490 Kuala Lumpur, Wilayah Persekutuan.

Principal Bankers

EON Bank Berhad (92351-V)
Wisma Cyclecarri
288, Jalan Raja Laut, 50350 Kuala Lumpur,
Wilayah Persekutuan.

United Overseas Bank (Malaysia) Berhad (271809-K)
Level 7, Menara UOB, Jalan Raja Laut,
50050 Kuala Lumpur, Wilayah Persekutuan.

HSBC Bank (Malaysia) Berhad (271809-K)
2, Leboh Ampang, 50100 Kuala Lumpur,
Wilayah Persekutuan.

Registrars

Tenaga Koperat Sdn Bhd (118401-V)
G-01, Groud Floor, Plaza Permata, Jalan Kampar,
Off Jalan Tun Razak, 50400 Kuala Lumpur,
Wilayah Persekutuan.
Tel: 03-4047 3883 Fax: 03-4042 6352

Stock Exchange Listing

Bursa Malaysia Securities Berhad (Second Board)

SUMMARY OF FINANCIAL HIGHLIGHTS

Summary of Financial Highlights for Balance Sheet and Income Statement for Past Five Years from 2003 to 2007

Balance Sheet	**2007 RM'000**	**2006 RM'000**	**2005 RM'000**	**2004 RM'000**	**2003 RM'000**
Issue capital	44,800	44,800	44,800	44,800	44,800
Share premium	4,891	4,891	4,891	4,891	4,891
Treasury shares	(579)	(246)	-	-	-
Retained profits	14,353	15,251	12,028	10,630	10,142
Translation reserve	4	-	-	-	-
Minority shareholders' interests	-	-	737	1,935	1,092
Funds employed	63,469	64,696	62,456	62,256	60,925
Negative goodwill	-	-	2,968	5,708	8,448
	63,469	64,696	65,424	67,964	69,373
Property,plant and equipment	24,926	26,746	29,710	30,412	25,713
Goodwill	1,499	710	710	1,365	2,021
Prepaid lease payments	2,046	2,046	2,082	2,116	2,152
Investment properties	1,432	1,740	1,787	2,223	2,280
Other investments	11,759	-	-	-	-
Deferred tax assets	733	760	755	785	809
Current asset	39,346	45,632	46,605	44,196	43,925
Total assets	81,741	77,634	81,649	81,097	76,900
Total liabilities	(18,272)	(12,938)	(16,225)	(13,133)	(7,527)
	63,469	64,696	65,424	67,964	69,373
Income Statement					
Revenue	71,216	77,144	72,998	63,611	62,198
Other operating income	759	458	3,827	3,098	3,234
Other operating expense	(72,646)	(77,088)	(76,179)	(66,458)	(62,346)
Operating (loss)/profit	(671)	514	646	251	3,086
Financing costs	(142)	(144)	(156)	(94)	(109)
Interest income	42	285	197	236	310
(Loss)/Profit before taxation	(771)	655	687	393	3,287
Tax expense	(273)	(1,137)	(627)	(1,087)	(1,030)
(Loss)/Profit for the year	(1,044)	(482)	60	(694)	2,257
Attributable to :					
Shareholders of the Company	(898)	510	1,398	488	2,482
Minority interests	(146)	(992)	(1,338)	(1,182)	(225)
(Loss)/Profit for the year	(1,044)	(482)	60	(694)	2,257

Note : The Company was listed on the Second Board of Bursa Malaysia Securities Berhad on 16 April 2002

Directors' Profile

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DIRECTORS' PROFILE

Mohamed Ghazali Bin Kamal Baharein
Chairman, Independent Non-Executive Director

Mohamed Ghazali Bin Kamal Baharein, a Malaysian, aged 62, was appointed to the Board of Directors of SMIS on 2 February 2002 as an Independent Non-Executive Director. He was appointed as Chairman, Independent Non-Executive Director on 27 February 2007.

He holds a Bachelor of Arts from University Malaya and a post graduate Diploma in Development Economics from University Cambridge, United Kingdom in 1972. He attended the Program Management Development in Harvard Business School in 1979. He started his career as an Assistant District Officer in the government service and later in various capacities within the FELDA group of companies where his last appointment was Senior General Manager of Felda Palm Industries Sdn Bhd. He is now a businessman and in consultancy services.

He is also the Chairman of the Remuneration Committee and is a member of the Nomination Committee.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Mohd Riani Bin Osman
Executive Director

Mohd Riani Bin Osman, a Malaysian, aged 56, was appointed as Executive Director of SMIS on 2 February 2002.

He is an entrepreneur with more than twenty-eight years experience in business, especially in the field of trading and manufacturing of OEM automotive parts and components. He has extensive working knowledge and experience in the automotive parts and components industry. He is responsible for the operations of the automotive division.

He also serves as a Director of Lysaght Galvanised Steel Berhad.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Ng Wai Kee
Executive Director

Ng Wai Kee, a Malaysian, aged 37, was appointed an Executive Director of SMIS on 2 February 2002.

He holds a Bachelor of Accounting degree from the University of Technology, Sydney, Australia and is an Associate member of the Institute of Chartered Accountants, Australia. He has worked as project consultant in Westpac Banking Corporation, Sydney in 1992 and with Deloitte Touche Tohmatsu, Sydney in 1993. He left the firm as a Senior Analyst in 1996. He is responsible for the operations and finance of the Group.

He is also a member of the Remuneration Committee.

He is the son of Yap Siew Foong, a Director and major shareholder of the Company. Save as disclosed on page 71 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

DIRECTORS' PROFILE

Yap Siew Foong
Executive Director

Yap Siew Foong, a Malaysian, aged 64, was appointed an Executive Director of SMIS on 2 February 2002.

She is one of the co-founders of SMIS Group. She is responsible for the finance and operations of the trading division.

She is the mother of Ng Wai Kee and sister-in-law of Cham Bee Sim, a Director. Save as disclosed on page 71 of the annual report, she does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

Cham Bee Sim
Executive Director

Cham Bee Sim, a Malaysian, aged 60, was appointed an Executive Director of SMIS on 2 February 2002.

Ha has vast experience in the manufacturing and trading of automotive parts and components. He is responsible for the operations of the automotive division.

He is the brother-in-law of Yap Siew Foong. Save as disclosed on page 71 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

Danny Ng Siew L'Leong
Senior Independent Non-Executive Director

Danny Ng Siew L'Leong, a Malaysian, aged 50, was appointed to the Board of Directors of SMIS on 2 February 2002 as an Independent Non-Executive Director.

He graduated with a Bachelor degree in Agribusiness (Honours) from University Pertanian Malaysia, majoring in Financial Management in 1982. He was attached to United Malayan Banking Corporation (now known as RHB Bank Berhad) as Credit Analyst for the central region from 1982 to 1986 and subsequently, the Accounts Manager of the Corporate Banking Department from 1986 to 1990. From 1990 to 1991, he was appointed the Unit Head of the Northern Region of the Corporate Banking Department and Head of Credit and Marketing for its Corporate Banking Department from 1991 to 1994.

He also serves as Director of New Hoong Fatt Holdings Berhad and Loh & Loh Corporation Berhad. He is the Chairman of the Audit Committee and is also a member of the Nomination and Remuneration Committee.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

DIRECTORS' PROFILE

Pauline Teh @ Pauline Teh Abdullah
Independent Non-Executive Director

Pauline Teh @ Pauline Teh Abdullah, a Malaysian, aged 38, was appointed to the Board of Directors of SMIS on 2 February 2002, as Independent Non-Executive Director.

She obtained a Bachelor of Commerce (Accounting) degree from Saint Mary's University, Halifax, Canada in 1993 and a Masters in Finance from University of Hull, United Kingdom in 1994. She was a Senior Operations Officer in Public Bank Berhad from 1993 to 1995 and joined Perdana Merchant Bankers 1995 and left as Assistant Vice-President in 1997 to take up the post of Assistant Manager with Project Lebuhraya Utara Selatan Berhad from 1997 to 1998. In 1998, she joined Hanifah Teo & Associates as a Management Consultant. She is currently Executive Director of BDO Capital Consultants Sdn Bhd.

She is a member of the Audit, Nomination and Remuneration Committee.

She has no family relationship with any director and/or major shareholders of the Company. She does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Foo Lee Khean
Independent Non-Executive Director

Foo Lee Khean, a Malaysian, aged 45, was appointed to the Board of Directors of SMIS on 26 November 2007, as Independent Non-Executive Director.

He is a Fellow Member of the Chartered Institute of Management Accountant, United Kingdom and Malaysia Institute of Accountants. He started his career with Coopers & Lybrand Malaysia in 1987 in the restructuring and recovery department before leaving as a Senior Associate in 1989 to join PriceWaterhouse ("PwC"), Singapore, also in the restructuring and recovery department. He left PwC in 1990 to join Arthur Andersen, Singapore before being transferred to Arthur Andersen, Malaysia in 1992 in the corporate recovery and corporate finance division.

His responsibility includes handling forensic audit, general receivership, merger and acquisitions as well as corporate finance activities such as IPOs, fund raising exercise and debt restructuring. He was the Director in Corporate Finance of Ernst & Young in 2002 following the merger of Arthur Andersen with Ernst & Young in the same year before leaving in 2005 to join Strategic Capital Advisory as a Partner.

He also serves as Director of Nakamichi Corporation Berhad. He is a member of the Audit Committee.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of SMIS Corporation Berhad ("SMIS" or "the Company"), I am pleased to present the Annual Report incorporating the Audited Financial Statements of SMIS and its subsidiary companies ("SMIS Group" or "Group") for the financial year ended 31 December 2007.

INDUSTRY OVERVIEW

Sales of motor vehicles in Malaysia are expected to increase by 4.7% to 510,000 units as forecasted by the Malaysian Automotive Association (MAA) in its report in "MAA's Market Review for 2007 & 2008 Outlook".

The automotive industry in Malaysia has shown signs recovery since middle of last year and it is expected to continue to improve in 2008. The introduction of some newer models, particularly the lower engine capacity range, has helped to spur the sales volume in the recent few months. This trend is expected to continue as consumers are likely to opt for a more affordable and economical car in anticipation of a potential increase in petrol prices. SMIS group expect revenues to improve in tandem with the improvement in vehicle sales.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2007, the revenue of the group was RM 71 million as compared to RM 77 million in the previous corresponding financial year; a drop of RM 6 million. The lower revenue was attributed by the slowdown in the automotive industry during the first half of 2007. Sales, however picked up since the second half of 2007.

The net loss for the financial year ended 31 December 2007 was RM1.044 million as compared to a net loss of RM 0.482 million in the previous corresponding financial year. The widening of the net loss was mainly due to higher raw material cost, especially the petroleum, aluminum and steel based products.

CHAIRMAN'S STATEMENT

PROSPECTS

SMIS expects its revenue to improve in line with the expected improvement in the automotive industry. SMIS Group will continue to take measures to improve efficiency and manage cost effectively to protect its operating margins.

The Group is also currently exploring opportunities to increase its overseas market either via expansion of its export sales or investing in a foreign operation. Coupled with the improved outlook of the automotive industry SMIS Group expects its earnings to improve steadily.

NEW INVESTMENT

SMIS had on 29 June 2007 acquired 61.39 % interest in Kyoto Energy Pte Ltd ("Kyoto") for a cash consideration of SGD 449,998 (equivalent to RM 1.017 million). Kyoto was incorporated in Singapore on 12 December 2002 and its principle activities are project development, carbon advisory and carbon asset management services. It is an independent project developer specializing in green energy, waste management and energy efficiency.

NEW BOARD MEMBER

On behalf of SMIS, I would like to welcome Mr. Foo Lee Khean, who was appointed as Independent Non-Executive Director on 26 November 2007, to the Board.

ACKNOWLEDGEMENT

I would like to express my appreciation to the Board Members for their commitment and dedication to the Company. I would also like to thank all our employees for their hard work, loyalty and support to SMIS Group. Also, many thanks to all our Business Associates, Bankers, Suppliers and other stakeholders for their continuous support and contribution to SMIS Group.

Mohamed Ghazali Bin Kamal Baharein

Chairman

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("Board") of SMIS Corporation Berhad remains committed towards ensuring the highest standard of corporate governance is maintained throughout the Company and its subsidiaries ("the Group"). Hence, the Board is fully dedicated to continuously evaluating the Group's corporate governance practices and procedures with a view to ensure the principles and best practices in corporate governance as promulgated by the Malaysian Code on Corporate Governance ("the Code") is applied and adhered to in the best interests of the stakeholders. The Board is pleased to report to the shareholders in the manner in which the Group has applied the principles and best practices.

THE BOARD OF DIRECTORS

(a) Composition and Balance

The Company is led by an effective and experienced Board, comprising of Eight (8) members, made up of Four (4) Independent Non-Executive Directors and Four (4) Executive Directors. This composition satisfies the Bursa Securities Listing Requirements that requires at least 2 Directors or 1/3 of the Board whichever is higher, who are Independent Directors. The profiles of the members of the Board are set out on page 6 to page 8 of this Annual Report. With this composition of members, the Board is satisfied that it fairly reflects the investment of the minority shareholders.

The role of the Independent Non-Executive Directors is to provide objective and independent judgment to the decision making of the Board and as such, provide an effective check and balance to the Board's decision making process. The Board's composition brings together an extensive group of experienced Directors who are from diverse backgrounds and have a wide range of skills and experience in areas relevant to managing and directing the Group's operations.

The Executive Directors are primarily responsible for the implementation of policies and decisions of the Board, overseeing the Group's operations and developing the Group's business strategies.

The Board has appointed Mr. Danny Ng Siew L'Leong as the Senior Independent Non-Executive Director to whom concerns may be conveyed.

(b) Duties and Responsibilities

The main focus of the Board is on the overall strategic leadership, identification and management of principal risks and development and control of the Group. The Board has delegated specific responsibilities to Board Committees, all of which discharge the duties and responsibilities within their respective Terms of Reference.

The roles of the Chairman and Chief Executive Officer ("CEO") are clearly distinct to ensure that there is a balance of power and authority in managing and directing the Group. The Chairman is primarily responsible for the effective and efficient conduct and working of the Board whilst the CEO is responsible for the daily management of the Group's operations and implementation of the policies and strategies adopted by the Board. The responsibilities of the CEO are assumed by the Executive Directors in charge of the respective business activities of the Group.

(c) Board Meetings

The Board meets quarterly with additional meetings being convened when necessary. In the meetings, the Board will deliberate and consider matters relating to the Group's financial performance, significant investments, corporate development, strategic issues and business plan. For the financial year ended 31 December 2007, the Board met 5 times. The meeting attendance records of the Directors who held office are set out below:

CORPORATE GOVERNANCE STATEMENT

Name of Director	Designation	No. of meetings attended
Mohamed Ghazali bin Kamal Baharein [Chairman]	Independent Non-Executive Director	5/5
Danny Ng Siew L'Leong	Senior Independent Non-Executive Director	5/5
Pauline Teh @ PaulineTeh Abdullah	Independent Non-Executive Director	5/5
Foo Lee Khean *Appointed on 26/11/07	Independent Non-Executive Director	1/1
Mohd Riani bin Osman	Executive Director	5/5
Ng Wai Kee	Executive Director	5/5
Yap Siew Foong	Executive Director	5/5
Cham Bee Sim	Executive Director	5/5

Board meetings are structured with a pre-set agenda which encompass all aspects of matters under discussion. The Board papers are circulated to Directors well in advance of the board meetings for their deliberation. All meetings of the Board are duly recorded in the Board Minutes.

Senior management may be invited to attend these meetings to explain and clarify matters being tabled.

In furtherance of their duties, the Board has unrestricted access to any information pertaining to the Group as well as to the advice and services of the Company Secretary and independent professional advisers whenever appropriate at the Group's expense.

(d) Appointment and Re-election of Directors

Any new appointments to the Board will require deliberation by the full Board guided by formal recommendations by the Nomination Committee. Board members who are appointed by the Board are subject to retirement at the Annual General Meeting ("AGM") of the Company subsequent to their appointment. Article 103 of the Company's Article of Association also provides that at least one-third (1/3) of the Directors shall retire by rotation at each AGM and that all Directors shall retire once every three (3) years. A retiring Director shall be eligible for re-election.

Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965 ("the Act").

(e) Directors' Training

During the year, the Directors have attended briefings/professional training programmes on Financial Reporting Standards, Structured Finance and Mergers & Acquisition. However, certain Directors were not able to fullfil this requirement due to their busy work schedule. The Directors are committed to the Continuing Education Programme and will endeavour to fullfil this requirement for the financial year ending 2008.

CORPORATE GOVERNANCE STATEMENT

The Directors will continue to attend relevant training programmes to further enhance their skills and knowledge and fully equip themselves to effectively discharge their duties.

For new Directors, the Nomination Committee ensures that they undergo an orientation program so that they are familiar with the Group's operation and current business issues.

BOARD COMMITTEES

Apart from the Audit Committee, there are two other additional committees established to assist the Board in the execution of its responsibilities. All the committees are provided with written terms of reference. Details of the Board committees are provided below.

(a) Nomination Committee

The Nomination Committee has three (3) members, all of whom are Independent Non-Executive Directors. The members of the Nomination Committee are:

i) Chairman

Danny Ng Siew L'Leong – Senior Independent Non-Executive Director

ii) Members

Pauline Teh @ Pauline Teh Abdullah – Independent Non-Executive Director

Mohamed Ghazali bin Kamal Baharein – Independent Non-Executive Director

The Nomination Committee is empowered by the Board of Directors and its terms of reference to assist the Board of Directors in their responsibilities in nominating new candidates to the Board and Board Committees. The Committee also reviews the Board of Directors composition and balance as well as considering the Board of Directors' succession planning.

The Nomination Committee met once during the year with the full attendance of its members. The purpose of the meeting was to assess the Boards composition and balance.

The Board considers that the current mix of skills and experience of its members is sufficient for the discharge of its duties and responsibilities effectively.

(b) Remuneration Committee

The Remuneration Committee comprises four (4) members with the majority being Independent Non-Executive Directors. The Remuneration Committee is to assist the Board of Directors in their responsibilities in reviewing and assessing the remuneration packages of the executive directors. The members of the Remuneration Committee are:

a) Chairman

Mohamed Ghazali bin Kamal Baharein – Independent Non-Executive Director

b) Members

Danny Ng Siew L'Leong – Senior Independent Non-Executive Director

Pauline Teh @ Pauline Teh Abdullah – Independent Non-Executive Director

Ng Wai Kee – Executive Director

The Remuneration Committee is responsible for recommending to the Board the remuneration framework for the remuneration packages of each Executive Director. This includes recommending remuneration packages necessary to attract, retain and motivate the Directors, and is reflective of the Directors' experience and level of responsibilities.

CORPORATE GOVERNANCE STATEMENT

None of the Executive Directors participate in any way in determining their individual remuneration. The remuneration of the Executive Directors is to be reviewed annually.

The Remuneration Committee met twice during the financial year. The meeting was attended by all its members to discuss the remuneration package of Directors that commensurate with corporate and individual performance.

c) Audit Committee

In relation to the membership of the Audit Committee, with the appointment of an additional Director on 26 November 2007, the Board has complied with the recent changes to the Code which recommends that the Audit Committee should comprise wholly of Non Executive Directors.

The Audit Committee members have attended briefings/profesional programmes on Financial Reporting Standards Structured Finance and Merger and Acquisitions during the financial year ended 31 December 2007.

The detailed report of the Audit Commettee is set out on pages 18 to 21.

DIRECTORS' REMUNERATION

The details of the remuneration of the Directors during the financial year ended 31 December 2007 are as follows:

(a) **Total Remuneration**

	Executive Directors RM	Non-Executive Directors RM	Total RM
Basic Salary	756,152	-	756,152
Bonuses	109,600	-	109,600
Fees	48,000	74,000	122,000
Attendance fee	-	16,000	16,000
Others	79,087	-	79,087
Total	992,839	90,000	1,082,839

(b) **Directors' remuneration by bands**

The number of Directors whose total remuneration falls within the following bands during the financial year ended 31 December 2007 are as follows:

Directors' Remuneration	Executive Directors	Non-Executive Directors	Total
RM1 to RM50,000	-	4	4
RM150,001 to RM200,000	1	-	1
RM250,001 to RM300,000	3	-	3
Total number of Directors	4	4	8

Details of individual Director's Remuneration are not disclosed in this report as the Board considers that the above Remuneration disclosures by band and analysis between Executive and Non Executive Directors satisfies the accountability and transparency aspects of the Code.

CORPORATE GOVERNANCE STATEMENT

SHAREHOLDERS

(a) Shareholders and Investors Relations
The Board acknowledges the importance of accountability to the shareholders. Timely release of the financial results on a quarterly basis, press releases and announcements provide an overview of the Group's performance and operations to its shareholders.

Information disseminated to the investment community is in accordance to Bursa Malaysia disclosure rules and regulations. The Board has taken steps to ensure that no market sensitive information is disclosed to any party prior to making an official announcement to Bursa Securities.

The Group has also established a website at www.smis.com.my from which shareholders as well as members of the public may access for the latest information on operations and activities of the Group.

(b) AGM
The AGM is the principal platform for dialogue with the shareholders. At the AGM, the Board presents the progress and performance of the Group to provide shareholders with the opportunity to question the business issues, concerns and operations in general. The Board will also ensure that each item of special business is included in the notice of the AGM and will be accompanied by an explanation of the effects of the proposed resolutions.

ACCOUNTABILITY AND AUDIT

(a) Financial Reporting
In presenting the annual financial statements and quarterly announcements to shareholders, the Directors aim to ensure that the financial statements and quarterly announcements are prepared in accordance with the Companies Act, 1965 and applicable approved accounting standards so as to offer a balanced and comprehensive assessment of the Group's financial position and prospects.

A Responsibility Statement by the Directors is set out on page 24 of this Annual Report.

(b) Internal Control
The Group's Statement on Internal Control is set out on pages 22 to 23 of the annual report to provide an overview on the state of internal control throughout the year.

In relation to the internal audit function, having considered the Group's operational requirements, the Board is of the view that the Group should still continue to outsource its internal audit function to external consultants. Nevertheless, this outsourcing arrangement shall be reviewed annually to ensure that it continues to meet the Group's requirements. The outsourced internal auditors assist the Board and the Audit Committee in providing independent assessment of the adequacy, efficiency and effectiveness of the Group's internal control systems. They report directly to the Audit Committee.

(c) Relationship with Auditors
The role of the Audit Committee in relation to the external auditors is explained in the Audit Committee Report set out on pages 18 to 21 of the annual report.

During the financial year ended 31 December 2007, the Audit Committee has met the external auditors twice, once without Executive Directors present. The Audit Committee has taken note of the recent amendments which recommends that the Audit Committee meets the external auditors twice a year and ensure that this is observed in the forthcoming financial year.

CORPORATE GOVERNANCE STATEMENT

(d) Non-Audit Fees

The amount of non-audit fees paid to external auditors by the Group for the current financial year amounted to RM22,000 which was largely for other services undertaken by the Group.

OTHER INFORMATION

(a) Shares Buy-Back

The shares bought back and retained as treasury shares during the financial year are set out as below:-

Details of share buyback as of 31 December 2007 is as follows:

	Number of SMIS Shares Purchased	Highest price RM	Lowest price RM	Average price RM	Total amount paid RM
Jan 2007	70,500	0.530	0.500	0.516	36,385
Feb 2007	18,000	0.540	0.530	0.540	9,713
Mar 2007	140,000	0.530	0.500	0.521	72,888
Apr 2007	-	-	-	-	-
May 2007	118,000	0.500	0.480	0.491	57,985
Jun 2007	15,400	0.490	0.490	0.494	7,611
Jul 2007	-	-	-	-	-
Aug 2007	5,000	0.480	0.475	0.483	2,413
Sep 2007	45,000	0.520	0.490	0.508	22,868
Oct 2007	27,000	0.495	0.490	0.499	13,460
Nov 2007	167,500	0.500	0.460	0.485	81,264
Dec 2007	57,900	0.490	0.460	0.476	27,538
Total	664,300				332,125

(b) Options, Warrants or Convertible Securities

There were no option, warrants or convertible securities exercised during the financial year under review.

(c) Material Contracts involving Directors' Interests

There were no contracts involving Directors' interests which are or may be material, not being contracts entered into in the ordinary course of business, which have been entered into by the Company and its subsidiary companies since the end of the previous financial year

(d) Recurrent Related Party Transactions

The details of the transactions with related parties undertaken by the Company during the financial period are disclosed in note 25 on page 66 of the notes to the financial statements and in the Circular to Shareholders, dated 24 April 2008.

(e) Corporate Social Responsibility (CSR)

The Group did not embark on any CSR activities for the financial year under review.
Consideration will be given to appropriate CSR initiatives in the coming financial year.

AUDIT COMMITTEE REPORT

The Board of Directors of SMIS Corporation Berhad is pleased to present the report of the Audit Committee for the financial year ended 31 December 2007.

Composition and Meetings

The members of the Audit Committee and details of their attendance at meetings during the financial year ended 31 December 2007 are as follows:

		Number of meetings	Attendance of meetings
Chairman:	Danny Ng Siew L'Leong (Senior Independent Non-Executive Director)	4	4/4
Members:	Pauline Teh @ Pauline Teh Abdullah (Independent Non-Executive Director)	4	4/4
	Ng Wai Kee (Executive Director) *Resigned as member of Audit Committee on 26/11/07	3	3/3
	Foo Lee Khean (Independent Non-Executive Director) *Apointed on 26 November 2007	1	1/1

Senior Management staff and the external consultants, to whom the internal audit function was outsourced to, attended the meetings at the invitation of the Audit Committee. The agenda of the meetings and relevant information are distributed to its members with sufficient notice. The proceedings of the meetings are formalised in the form of meeting minutes by the Company Secretary.

Summary of Activities of the Audit Committee

The following activities were undertaken by the Audit Committee during the financial year ended 31 December 2007:-

(a) Reviewed the unaudited quarterly report on the consolidated results of the Group for the quarters ended 31 December 2006, 31 March 2007, 30 June 2007 and 30 September 2007.

(b) Reviewed the Group's Updated Key Risk Profile ("KRP") updated in May 2007 by Management with the assistance of the external consultants.

(c) Reviewed and approved the internal audit plan prepared by the Internal Audit Function.

(d) Reviewed the internal audit reports and ensured the implementation of the action plans are carried out by Management on a timely basis

(e) Reviewed the audit plan of the external auditors.

(f) Reviewed the annual audited financial statements, external auditors' reports and their audit findings.

(g) Reviewed related party transactions and considered conflict of interest situation that may arise within the Group.

Summary of Activities of the Internal Audit Function

The activities of the Internal Audit Function during the financial year were as follows:

(a) develop the internal audit plan for year 2008;

(b) execution of the approved internal audit plan;

(c) presentation of the internal audit findings at the quarterly Audit Committee meetings. All findings raised by the Internal Audit Function have been appropriately addressed by Management

(d) conducted follow up reviews to ensure that action plans are properly and appropriately implemented by Management; and

(e) facilitated the updating of the Group's Key Risk Profile.

The internal audits conducted did not reveal weaknesses which would result in material losses, contingencies or uncertainties that would require disclosure in the annual report.

AUDIT COMMITTEE REPORT

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. OBJECTIVES

The objective of the Audit Committee is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:-

a) Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;

b) Maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and

c) Determine the adequacy of the Group's administrative, operating and accounting controls.

2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:-

a) the audit committee must be composed of no fewer than 3 members;

b) all members of the audit committee should be non-executive directors;

c) a majority of the audit committee must be independent directors; and

d) all members of the audit committee should be financially literate and at least one member of the audit committee:-

i) must be a member of the Malaysian Institute of Accountants; or

ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-

- he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
- he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967, or
- he must be a person who fulfills the requirements as may be prescribed or approved by Bursa Malaysia Securities Berhad and/or other relevant authorities from time to time.

e) no alternate Director of the Board shall be appointed as a member of the Committee.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (d) above, the vacancy must be filled within 3 months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

AUDIT COMMITTEE REPORT

3. FUNCTIONS

The functions of the Audit Committee are as follows:-

a) to review the following and report the same to the Board of Directors:-

   i) with the external auditors, the audit plan;

   ii) with the external auditors, his evaluation of the system of internal controls;

   iii) with the external auditor, his audit report;

   iv) the assistance given by the Company's employees to the external auditors; and

   v) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity.

b) To consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal and the letter of resignation from the external auditors, if applicable;

c) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

d) To review the quarterly and year-end financial statements of the company, focusing particularly on:-

   - Any changes in accounting policies and practices;
   - Significant adjustments arising from the audit;
   - The going concern assumption;
   - Compliance with accounting standards and other legal requirements;

e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);

f) To review the external auditor's management letter and management's response;

g) To do the following, in relation to the internal audit function:-

   - Review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;

   - Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate action are taken on the recommendations of the internal audit function;

   - Review any appraisal or assessment of the performance of members of the internal audit function;

   - Approve any appointments or termination of senior staff members of the internal audit function;

   - Take cognisance of resignation of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

h) To consider the major findings of internal investigations and management's response;

i) To ensure the internal audit function is independent of the activities it audits and the head of internal audit reports directly to the Audit Committee. The head of internal audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company;

j) To consider other areas as defined by the board or as may be prescribed by Bursa Malaysia Securities Berhad or any other relevant authority from time to time.

4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to perform its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- have authority to investigate any matter within its terms of reference;
- have the resources which are required to perform its duties;
- have full and unrestricted access to any information pertaining to the Company and Group;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- be able to obtain independent professional or other advice; and
- be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.

The Chairman of the audit committee shall engage on a continuous basis with senior management, such as the chairman, the chief executive officer, the financial director, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

5. MEETINGS

The Audit Committee shall meet at least 4 times a year and such additional meetings as the Chairman shall decide in order to fulfil its duties. However, at least twice a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to committee members and to the other members of the Board of Directors.

A quorum shall consist of a majority of independent directors.

By invitation of the Audit Committee, the Company must ensure that other directors and employees attend any particular audit committee meeting specific to the relevant meeting.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

Pursuant to paragraph 15.27 (b) of the Listing Requirements ("LR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and as guided by the Bursa Malaysia's Statement on Internal Control: Guidance for Directors of Public Listed Companies ('the Guidance"), the Board of Directors ("the Board") of SMIS Corporation Berhad is pleased to include a statement on the state of the Group's internal control in the annual report.

RESPONSIBILITY

The Board acknowledges its responsibility and affirms its commitment in maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets as well as reviewing the adequacy and integrity of the system of internal control.

However, as there are inherent limitations in any system of internal control, such system put into effect by the Group can only reduce but cannot eliminate all risks that may impede the achievement of the Group's business objectives. Therefore, the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

KEY FEATURES OF THE GROUP'S INTERNAL CONTROL SYSTEM

1. MONITORING RESULTS AGAINST BUDGET

Monthly monitoring of results against budgets for active subsidiaries, with significant variances being followed up and appropriate action taken, where necessary.

2. CLEAR ORGANIZATION STRUCTURE

An organizational structure where key responsibilities are clearly defined as well as the authorization policy which sets out the appropriate authority limits for all aspects of the Group's business.

3. REGULAR FACTORY VISITS

Regular factory visits carried out by the senior management team members.

4. ISO CERTIFICATION

Certain of the Group's operations are ISO certified and TS 16949 certified. With such certifications, audits are conducted by external parties particularly to ensure compliance with the terms and condition of the respective certifications.

STATEMENT ON INTERNAL CONTROL

5. RISK MANAGEMENT FRAMEWORK

Risk Management is regarded by the Board to be an integral part of the business operations. The Board maintains an on-going commitment to enhance the Group's control environment and processes. The key risks relating to the Group's operations and strategic and business plans are addressed at Management's periodic meetings. Significant risks identified are brought to the attention of the Board at their scheduled meetings.

Subsequent to 31 December 2007, Management with the assistance of external consultants updated the Group's key risk profile on 5 March 2008. Risks identified were prioritised in terms of likelihood of their occurrence and the impact on the achievement of the Group's business objectives/goals. The key risk profile is updated annually to ensure that all key risks are identified and adequate responses are devised and continued to be relevant in mitigating these risks.

The abovementioned practices/initiatives by Management serves as the on-going process used to identify, evaluate and manage significant risks.

6. INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to external consultants. The outsourced internal auditors assist the Board and the Audit Committee in providing independent assessment of the adequacy, efficiency and effectiveness of the Group's internal control system. They report directly to the Audit Committee and internal audit plans are tabled to the Audit Committee for review and approval to ensure adequate coverage.

The Group's internal auditors table the results of their review of the business processes of different operating units to the Audit Committee at their scheduled meetings. The status of the implementation of corrective actions to address control weaknesses are also followed up by the internal auditors to ensure that these actions have been satisfactorily implemented.

During the financial year under review, identified weaknesses in internal control have been appropriately addressed and Senior Management will continue to ensure that appropriate action is taken to enhance and strengthen the internal control environment.

7. CONCLUSION

The Board is of the view that the Group's system of internal control is appropriate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the system of internal control.

This statement was approved by the Board of Directors on 8 April 2008.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is fully accountable to ensure that the financial statements are drawn up in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007 and of the results and cash flows of the Group and Company for the financial year ended on that date.

In the preparation of the financial statements, the Directors have:

a) applied relevant and appropriate accounting policies consistently and in accordance with applicable approved accounting standards;

b) made judgements and estimates that are prudent and reasonable; and

c) used the going concern basis for the preparation of the financial statements.

The Directors are responsible for ensuring that proper accounting records are kept in accordance with the Act. The Directors also have overall responsibility in taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This statement is made in accordance with a resolution of the Board of Directors dated 8 April 2008.

FINANCIAL STATEMENTS

for the year ended 31 December 2007

DIRECTORS' REPORT

for the year ended 31 December 2007

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2007.

Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. Except for the acquisition of subsidiary as stated in Note 7 to the financial statements, there has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Loss attributable to:		
Shareholders of the Company	(898)	(2,751)
Minority interest	(146)	-
	(1,044)	(2,751)

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year under review except as disclosed in the financial statements.

Dividends

No dividend was paid during the year and the Directors do not recommend any dividend to be paid for the year under review.

Directors of the Company

Directors who served since the date of the last report are:

Mohd Riani Bin Osman
Ng Wai Kee
Yap Siew Foong
Cham Bee Sim
Danny Ng Siew L'Leong
Pauline Teh @ Pauline Teh Abdullah
Mohamed Ghazali bin Kamal Baharein
Foo Lee Khean (appointed on 26.11.2007)

Directors' interests

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each			
	At 1.1.2007	Bought	Sold	At 31.12.2007
Direct interest in the Company				
Mohd Riani bin Osman	2,389,336	-	-	2,389,366
Ng Wai Kee	700,900	-	-	700,900
Yap Siew Foong	1,263,730	-	-	1,263,730
Cham Bee Sim	149,572	100,000	-	249,572
Indirect interest in the Company				
Ng Wai Kee	15,680,000	-	-	15,680,000
Yap Siew Foong	15,680,000	-	-	15,680,000
Cham Bee Sim	15,680,000	-	-	15,680,000

By virtue of their interest in the ordinary shares of the Company, Mohd Riani bin Osman, Ng Wai Kee, Yap Siew Foong and Cham Bee Sim are also deemed interested in the ordinary shares of the subsidiaries during the financial year to the extent that the Company has an interest.

None of the other Directors holding office at 31 December 2007 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 25 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REPORT

for the year ended 31 December 2007

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Other statutory information

Before the balance sheets and income statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

Other statutory information (continued)

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the acquisition of a foreign subsidiary as disclosed in Note 26 to the financial statements and the impairment loss on investment in subsidiary, the results of the operations of the Group and of the Company for the financial year ended 31 December 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant event during the year

On 29 June 2007, the Company acquired 79,505 ordinary shares of SGD$1.00 each, representing 61.39% of the issued and paid-up share capital of Kyoto Energy Pte. Ltd. ("Kyoto"), for a total cash consideration of SGD$450,000, which is equivalent to Ringgit Malaysia RM1,017,000.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Mohd Riani bin Osman

....

Ng Wai Kee

Kuala Lumpur, Malaysia

Date: 8 April 2008

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 33 to 68 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards / accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2007 and of the results of their operations and cash flows for the year ended on that date.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Mohd Riani bin Osman

....

Ng Wai Kee

Kuala Lumpur, Malaysia

Date: 8 April 2008

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, Ng Wai Kee, the Director primarily responsible for the financial management of SMIS Corporation Berhad, do solemnly and sincerely declare that the financial statements set out on pages 33 to 68 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 8 April 2008.

....

Ng Wai Kee

Before me:

Commissioner for Oaths

REPORT OF THE AUDITORS

to the members of SMIS Corporation Berhad

We have audited the financial statements set out on pages 33 to 68. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards / accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:

   i) the state of affairs of the Group and of the Company at 31 December 2007 and the results of their operations and cash flows for the year ended on that date; and

   ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

Lim Hun Soon @ David Lim
Partner
Approval Number: 1514/05/08(J)

Kuala Lumpur, Malaysia

Date: 8 April 2008

BALANCE SHEET

as at 31 December 2007

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Assets					
Property, plant and equipment	3	24,926	26,746	3	4
Goodwill on consolidation	4	1,499	710	-	-
Prepaid lease payments	5	2,046	2,082	-	-
Investment properties	6	1,432	1,740	-	-
Investment in subsidiaries	7	-	-	54,118	55,467
Other investments	8	11,759	-	2,732	-
Deferred tax assets	9	733	760	-	-
Total non-current assets		42,395	32,038	56,853	55,471
Receivables, deposits and prepayments	10	22,744	15,969	3	15
Inventories	11	12,661	11,181	-	-
Current tax assets		258	1,595	27	27
Cash and cash equivalents	12	3,683	16,851	735	5,180
Total current assets		39,346	45,596	765	5,222
Total assets		81,741	77,634	57,618	60,693
Equity					
Share capital		44,800	44,800	44,800	44,800
Reserves		18,669	19,896	7,516	10,600
Total equity attributable to shareholders of the Company		63,469	64,696	52,316	55,400
Minority shareholders' interest		-	-	-	-
Total equity	13	63,469	64,696	52,316	55,400
Liabilities					
Deferred tax liabilities	9	934	996	-	-
Total non-current liability		934	996	-	-
Payables and accruals	14	16,752	11,073	5,302	5,293
Loans and borrowings	15	437	869	-	-
Current tax liabilities		149	-	-	-
Total current liabilities		17,338	11,942	5,302	5,293
Total liabilities		18,272	12,938	5,302	5,293
Total equity and liabilities		81,741	77,634	57,618	60,693

The notes on pages 39 to 68 are an integral part of these financial statements.

SMIS

INCOME STATEMENTS

for the year ended 31 December 2007

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Revenue		71,216	77,144	-	1,889
Cost of sales		(62,529)	(63,505)	-	-
Gross profit		8,687	13,639	-	1,889
Other operating income		759	458	1	-
Distribution expenses		(767)	(1,000)	-	-
Administrative expenses		(7,494)	(6,951)	(321)	(292)
Other operating expenses		(1,856)	(5,632)	(2,436)	(3,975)
Operating (loss)/profit	16	(671)	514	(2,756)	(2,378)
Interest income		42	285	5	133
Finance costs	18	(142)	(144)	-	-
(Loss)/Profit before tax		(771)	655	(2,751)	(2,245)
Tax expense	19	(273)	(1,137)	-	(384)
Loss for the year		(1,044)	(482)	(2,751)	(2,629)
Attributable to:					
Shareholders of the Company		(898)	510	(2,751)	(2,629)
Minority interests		(146)	(992)	-	-
Loss for the year		(1,044)	(482)	(2,751)	(2,629)
Basic (loss)/earnings per ordinary share (sen)	20	(2.04)	1.14		

The notes on pages 39 to 68 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

		Attributable to shareholders of the Company							
		Non-distributable				Distributable			
Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interest RM'000	Total Equity RM'000
At 1 January 2006		44,800	4,891	-	-	14,996	64,687	737	65,424
Purchase of treasury share at cost		-	-	(246)	-	-	(246)	-	(246)
Changes in share of net assets arising from the additional subscription of shares in a subsidiary		-	-	-	-	(255)	(255)	255	-
Profit for the year		-	-	-	-	510	510	(992)	(482)
At 31 December 2006/ 1 January 2007		44,800	4,891	(246)	-	15,251	64,696	-	64,696
Purchase of treasury share at cost		-	-	(333)	-	-	(333)	-	(333)
Acquisition of a foreign subsidiary	25	-	-	-	-	-	-	143	143
Foreign exchange translation differences		-	-	-	4	-	4	3	7
Loss for the year		-	-	-	-	(898)	(898)	(146)	(1,044)
At 31 December 2007		44,800	4,891	(579)	4	14,353	63,469	-	63,469
		Note 13		**Note 13**	**Note 13**				

Company	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total Equity RM'000
At 1 January 2006	44,800	4,891	-	8,584	58,275
Purchase of treasury share at cost	-	-	(246)	-	(246)
Loss for the year	-	-	-	(2,629)	(2,629)
At 31 December 2006/ 1 January 2007	44,800	4,891	(246)	5,955	55,400
Purchase of treasury share at cost	-	-	(333)	-	(333)
Loss for the year	-	-	-	(2,751)	(2,751)
At 31 December 2007	44,800	4,891	(579)	3,204	52,316
	Note 13		**Note 13**	**Note 13**	

The notes on pages 39 to 68 are an integral part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2007

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash flows from operating activities				
(Loss)/Profit before tax	(771)	655	(2,751)	(2,245)
Adjustments for:				
Allowance for doubtful debts	15	-	-	-
Allowance for diminution in value of other investments	64	-	47	-
Amortisation of prepaid lease payments	36	36	-	-
Bad debts written off	83	-	-	-
Depreciation of investment properties	41	47	-	-
Depreciation of property, plant and equipment	3,561	4,422	1	1
Dividend income	-	-	-	(1,889)
Gain on disposal of investment properties	(83)	-	-	-
Gain on disposal of property, plant and equipment	(146)	(20)	-	-
(Gain)/Loss on disposal of other investments	(93)	-	22	-
Interest expense	34	48	-	-
Interest income	(42)	(285)	(5)	(133)
Impairment loss on investment in subsidiaries	-	-	2,366	3,975
Impairment loss on property, plant and equipment	13	2,463	-	-
Reversal of allowance for doubtful debts	(1)	-	-	-
Unrealised foreign exchange gain	(12)	-	-	-
Operating profit/(loss) before changes in working capital	2,699	7,366	(320)	(291)
Changes in working capital:				
Inventories	(1,480)	(496)	-	-
Payables and accruals	4,843	(2,755)	9	-
Receivables, deposits and prepayments	(6,872)	3,772	12	15
Cash (used in)/generated from operations	(810)	7,887	(299)	(276)

CASH FLOW STATEMENTS

for the year ended 31 December 2007

		Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest paid		(34)	(48)	-	-
Tax refunded		1,623	-	-	-
Tax paid		(445)	(1,199)	-	-
Net cash generated from/(used in) operating activities		334	6,640	(299)	(276)
Cash flows from investing activities					
Acquisition of other investments	(i)	(22,242)	-	(5,198)	-
Acquisition of a foreign subsidiary, net of cash acquired		39	-	-	-
Acquisition of property, plant and equipment	(ii)	(1,736)	(3,676)	-	-
Dividends received		-	-	-	1,500
Interest received		42	285	5	118
Investment in subsidiaries		-	-	(1,017)	(1,500)
Proceeds from disposal of investment properties		350	-	-	-
Proceeds from disposal of other investments	(i)	10,512	-	2,397	-
Proceeds from disposal of property, plant and equipment		291	20	-	-
Net cash (used in)/generated from investing activities		(12,744)	(3,371)	(3,813)	118
Cash flows from financing activities					
Purchase of treasury shares at cost		(333)	(246)	(333)	(246)
Repayment of finance lease liabilities		(48)	(69)	-	-
Net cash used in financing activities		(381)	(315)	(333)	(246)
Net (decrease)/increase in cash and cash equivalents		(12,791)	2,954	(4,445)	(404)
Effect of exchange rate fluctuation		7	-	-	-
Cash and cash equivalents at 1 January		16,030	13,076	5,180	5,584
Cash and cash equivalents at 31 December	(iii)	3,246	16,030	735	5,180

CASH FLOW STATEMENTS

for the year ended 31 December 2007

Notes to the cash flow statement

i) Acquisition and disposal of other investments

In 2007, included in proceeds from disposal of other investments of the Group and of the Company are amounts of RM9,243,000 and RM1,198,000 respectively reinvested and reflected in acquisition of other investments during the year. Transaction costs of the Group and of the Company amounting to RM70,000 and Nil respectively were incurred to facilitate the reinvestment process.

ii) Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment amounting to RM1,888,000 (2006 - RM3,921,000) of which RM152,000 (2006 - RM215,000) was accrued for and Nil (2006 - RM30,000) was capitalised from deposits previously included in other receivables.

iii) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

		Group		Company	
		2007	2006	2007	2006
	Note	RM'000	RM'000	RM'000	RM'000
Deposits placed with licensed banks	12	-	12,100	-	4,500
Cash and bank balances	12	3,683	4,751	735	680
Bank overdrafts - secured	15	(437)	(821)	-	-
		3,246	16,030	735	5,180

The notes on pages 39 to 68 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SMIS Corporation Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Second Board of Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

Registered office
Lot 6.05, Level 6, KPMG Tower, 8 First Avenue,
Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan

Principal place of business
No 19, Jalan Dua, Off Jalan Chan Sow Lin
55200 Kuala Lumpur

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group). The financial statements of the Company as at and for the year ended 31 December 2007 do not include other entities.

The Company is principally engaged in investment holding whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements.

The financial statements were approved by the Board of Directors on 8 April 2008.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The MASB has issued FRS 119, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, FRS 124, Related Party Disclosure and FRS 6, Exploration for and Evaluation of Mineral Resources for accounting periods beginning 1 January 2007. The adoption of FRS 119, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures and FRS 124, Related Party Disclosure does not result in significant financial impact on the Group and on the Company except for the format and extent of disclosures presented in the financial statements. Meanwhile, FRS 6 is not applicable to the Group and to the Company.

The MASB has also issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2007 and that have not been applied in preparing these financial statements:

FRSs / Interpretation	Effective date
FRS 139, Financial Instruments: Recognition and Measurement	To be announced
FRS 107, Cash Flow Statements	1 July 2007
FRS 111, Construction Contracts	1 July 2007
FRS 112, Income Taxes	1 July 2007
FRS 118, Revenue	1 July 2007
FRS 120, Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
FRS 134, Interim Financial Reporting	1 July 2007
FRS 137, Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Group and the Company plans to apply the abovementioned FRSs and Interpretations for the annual period beginning 1 January 2008 except for FRS 139, Financial Instruments: Recognition and Measurement which effective date has yet to be announced.

The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

The initial application of the other FRSs and Interpretations are not expected to have any material impact on the financial statements of the Group and of the Company.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than disclosed in the following notes:

- Note 4 - measurement of the recoverable amounts of cash-generating units
- Note 6 - valuation of investment properties
- Note 9 - recognition of unutilised tax losses and capital allowances
- Note 26 - business combination

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses.

(ii) Minority interest

Minority interest at the balance sheet date, being the portion of the net identifiable assets (excluding goodwill) of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group is presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of the losses previously absorbed by the Group has been recovered.

(iii) Changes in Group composition

Where a subsidiary issues new equity shares to minority interest for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statements.

When a Group purchases a subsidiary's equity shares from minority interest for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition accounting method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with subsidiaries are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the balance sheet date. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

On disposal, accumulated translation differences are recognised in the consolidated income statement as part of the gain or loss on sale.

(c) Property, plant and equipment

(i) Recognition and measurement

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other operating income" or "other operating expenses" respectively in the income statement.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the income statement on straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land and capital work-in-progress are not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings	50 years
• Plant and machinery	5 - 10 years
• Office equipment, furniture and fittings and renovation	3 - 50 years
• Motor vehicles	3 - 10 years
• Moulds and jigs	3 - 10 years

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

(d) Leased assets

(i) Finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Operating lease

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments, except for leasehold land classified as investment property.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(e) Intangible assets

(i) Goodwill

Goodwill arises on business combination and is measured at cost less any accumulated impairment losses.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3 beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statement.

(ii) Amortisation

Goodwill are tested for impairment annually and whenever there is an indication that they may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

2. **Significant accounting policies (continued)**

(f) Investments

Investments classified as non-current assets should be carried in the balance sheet at either:

- cost; or

- in the case of marketable equity securities, the lower of cost and market value determined on a portfolio basis.

Where in the opinion of the directors, there is a decline other than temporary in the value of marketable equity securities other than investment in subsidiaries, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

All investments in debt and equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

(i) the recognition of an asset on the day it is received by the entity, and

(ii) the derecognition on an asset and recognition of any gain or loss on disposal on the date if is delivered.

(g) Investment properties

(i) Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. These includes land (other than leasehold land) held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(c).

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of 50 years.

(ii) Determination of fair value

The Directors estimate the fair values of the Group's investment properties. There has been no valuation carried out by independent valuers.

The Directors estimate the fair values of the Group's investment properties based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield hat reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Significant assumptions in arriving at the fair value of investment properties are disclosed in Note 6.

2. Significant accounting policies (continued)

(h) Inventories

Raw materials, work-in-progress and manufactured goods are measured at the lower of cost and net realisable value with first-in first-out being the main basis for cost. For work-in-progress and manufactured goods, cost includes an appropriate share of production overheads based on normal operating capacity. For trading goods, cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

In arriving at net realisable value, a write down is made, where necessary, for obsolete and slow moving items.

(i) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

(k) Impairment of assets

The carrying amounts of assets except for financial assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statements in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(l) Share capital

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity and is not re-valued for subsequent changes in the fair value or market price of shares. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

(m) Employee benefits

Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contribution to the Employees Provident Fund is charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(n) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings using the effective interest method.

(o) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(p) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(q) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

2. Significant accounting policies (continued)

(r) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred.

(s) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

3 **Property, plant and equipment**

Group Cost	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings and renovations RM'000	Motor vehicles RM'000	Moulds and jigs RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 January 2006	1,555	12,996	27,987	5,505	2,186	2,367	128	52,724
Additions	-	-	1,810	366	277	554	914	3,921
Disposals	-	-	-	(10)	(63)	-	-	(73)
Reclassifications	-	-	63	-	-	150	(213)	-
At 31 December 2006/ 1 January 2007	1,555	12,996	29,860	5,861	2,400	3,071	829	56,572
Acquisition through business combination	-	-	-	11	-	-	-	11
Additions	-	-	675	561	316	335	1	1,888
Disposals	-	-	-	(11)	(383)	(211)	-	(605)
Reclassifications	-	-	16	812	-	2	(830)	-
At 31 December 2007	1,555	12,996	30,551	7,234	2,333	3,197	-	57,866

3 Property, plant and equipment

Group	Note	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings and renovations RM'000	Motor vehicles RM'000	Moulds and jigs RM'000	Capital work-in-progress RM'000	Total RM'000
Accumulated depreciation and impairment losses									
At 1 January 2006		-	2,597	14,344	3,206	1,376	1,491	-	23,014
Depreciation for the year	16	-	299	2,540	570	332	681	-	4,422
Impairment loss for the year	16	-	-	2,244	195	-	24	-	2,463
Disposals		-	-	-	(10)	(63)	-	-	(73)
Accumulated depreciation		-	2,896	16,884	3,766	1,645	2,172	-	27,363
Accumulated impairment loss		-	-	2,244	195	-	24	-	2,463
At 31 December 2006/ 1 January 2007		-	2,896	19,128	3,961	1,645	2,196	-	29,826
Depreciation for the year	16	-	298	1,885	607	375	396	-	3,561
Impairment loss for the year	16	-	-	-	13	-	-	-	13
Disposals		-	-	-	(7)	(383)	(70)	-	(460)
Accumulated depreciation		-	3,194	18,769	4,366	1,637	2,498	-	30,464
Accumulated impairment loss		-	-	2,244	208	-	24	-	2,476
At 31 December 2007		-	3,194	21,013	4,574	1,637	2,522	-	32,940
Carrying amounts									
At 1 January 2006		1,555	10,399	13,643	2,299	810	876	128	29,710
At 31 December 2006/ At 1 January 2007		1,555	10,100	10,732	1,900	755	875	829	26,746
At 31 December 2007		1,555	9,802	9,538	2,660	696	675	-	24,926

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)

Company Cost	Note	Office equipment RM'000
At 1 January 2006/31 December 2007		9
Accumulated depreciation		
At 1 January 2006		4
Depreciation for the year	16	1
At 31 December 2006/1 January 2007		5
Depreciation for the year	16	1
At 31 December 2007		6
Carrying amounts		
At 1 January 2006		5
At 31 December 2006/1 January 2007		4
At 31 December 2007		3

3.1 The title to the freehold land of a subsidiary costing RM1,555,000 (2006 - RM1,555,000) is pending registration to the name of the subsidiary.

3.2 Certain freehold land and buildings of the Group costing RM14,249,000 (2006 - RM14,249,000) have been assigned/ pledged to financial institutions as security for borrowings/banking facilities granted to the subsidiaries (Note 15).

3.3 The net book value of property, plant and equipment acquired under finance lease agreement is as follows:

	2007 RM'000	2006 RM'000
Motor vehicles	122	183

The subsidiary has fully settled the finance lease liabilities during the year.

4. Goodwill on consolidation

Cost	Note	2007 RM'000	2006 RM'000
At 1 January		710	3,323
Effect of adopting FRS 3		-	(2,613)
Acquisition through business combination	25	789	-
At 31 December		1,499	710
Amortisation			
At 1 January		-	2,613
Effect of adopting FRS 3		-	(2,613)
At 31 December		-	-
Carrying amounts			
At 31 December		1,499	710

NOTES TO THE FINANCIAL STATEMENTS

4. Goodwill on consolidation (continued)

With effect from 1 January 2006, the Group no longer amortises goodwill on consolidation. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Impairment loss is recognised in the income statement and subsequent reversal is not allowed.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's machinery parts division and consultancy service & environment division, which represent the lowest levels within the Group at which the goodwill is monitored for internal management purposes. Consultancy service & environment is a new division acquired during the year.

The recoverable amount for the above was based on its value in use and was determined by discounting the future cash flows generated from the continuing use of those units and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and a 5-year projection.
- Revenue was projected at an anticipated annual revenue growth of 5% per annum for 5 years.
- Depreciation charges were projected based on 5 years useful live of plant and machineries.
- Effective tax rates were projected to be 30% for 5 years.
- A discount rate of 7% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the Group's existing rate of borrowings.

The values assigned to the key assumptions represent management's assessment of future trends in the industry.

5. Prepaid lease payments

Group	Note	Unexpired lease period of more than 50 years 2007 RM'000	2006 RM'000
Long term leasehold land			
Cost			
At 1 January/31 December		2,583	2,583
Amortisation			
At 1 January		501	465
Amortisation for the year	16	36	36
At 31 December		537	501
Carrying amounts			
At 31 December		2,046	2,082

Security

At 31 December 2007, long term leasehold land of the Group costing RM2,583,000 (2006 - RM2,583,000) has been assigned to a licensed bank for banking facilities granted to the subsidiaries (Note 15).

NOTES TO THE FINANCIAL STATEMENTS

6. Investment properties

		Group	
		2007	2006
Cost	Note	RM'000	RM'000
At 1 January		2,834	2,834
Disposal		(290)	-
At 31 December		2,544	2,834
Depreciation and impairment loss			
Accumulated depreciation		715	668
Accumulated impairment loss		379	379
At 1 January		1,094	1,047
Depreciation for the year	16	41	47
Disposal		(23)	-
Accumulated depreciation		733	715
Accumulated impairment loss		379	379
At 31 December		1,112	1,094
Carrying amounts			
At 31 December		1,432	1,740
Fair values			
At 31 December		1,874	2,330
Included in the above are:			
Buildings		1,432	1,740

Estimation uncertainty and key assumptions

The Group estimates the fair values of its investment properties based on the following key assumptions:-

- A range of yields varying between 8% and 12% to the estimated net annual rentals of each property to determine the fair value of the properties;

- The comparison of the Group's investment properties with similar properties that were sold within the same locality or other comparable localities;

- Inquiries of property valuers and real estate agents on market conditions and changing market trends.

Investment properties comprise a number of commercial properties that are leased to third parties. The lease is renewable on a yearly basis. No contingent rents are charges.

NOTES TO THE FINANCIAL STATEMENTS

7. Investment in subsidiaries

	Note	Company 2007 RM'000	Company 2006 RM'000
Unquoted shares, at cost:			
At 1 January		55,467	57,942
Acquisition through business combination	26	1,017	-
Additional subscription of shares in a subsidiary		-	1,500
Impairment loss	16	(2,366)	(3,975)
At 31 December		54,118	55,467

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2007 %	Effective ownership interest 2006 %
Grand Carpet Industries Sdn. Bhd.	Malaysia	Trading of carpet of all description	100	100
Sanyco Grand Industries Sdn. Bhd.	Malaysia	Manufacturing of automotive braking components and motorcycle components	100	100
Machinery & Industrial Supplies Sdn. Bhd.	Malaysia	Trading in machinery and industrial parts supplies	100	100
Sugihara Grand Industries Sdn. Bhd.	Malaysia	Manufacturing and trading of carpets of all description.	60	60
Cleon Technology Sdn. Bhd.	Malaysia	Manufacturing and trading of rechargeable lithium polymer batteries of all descriptions. During the financial year, the Company has ceased its operations	66.25	66.25
Kyoto Energy Pte. Ltd.	Singapore	Project development, carbon advisory and carbon asset management services	61.39	-

8. Other investments - at cost

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Non-current					
Quoted investments in Malaysia		11,823	-	2,779	-
Less: Allowance for diminution in value	16	(64)	-	(47)	-
		11,759	-	2,732	-
Market value of quoted investments in Malaysia		11,875	-	2,732	-

NOTES TO THE FINANCIAL STATEMENTS

9. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2007 RM'000	Assets 2006 RM'000	Liabilities 2007 RM'000	Liabilities 2006 RM'000	Net 2007 RM'000	Net 2006 RM'000
Property, plant and equipment	(52)	(86)	(1,775)	(1,886)	(1,827)	(1,972)
Provisions	785	846	83	53	868	899
Capital allowance carry-forwards	-	-	733	633	733	633
Tax loss carry-forwards	-	-	25	204	25	204
Net tax assets/(liabilities)	733	760	(934)	(996)	(201)	(236)

Movement in temporary differences during the year

	At 1.1.2006 RM'000	Recognised in income statement (Note 19) RM'000	At 31.12.2006 RM'000	Recognised in income statement (Note 19) RM'000	At 31.12.2007 RM'000
Property, plant and equipment	(627)	(1,345)	(1,972)	145	(1,827)
Provisions	936	(37)	899	(31)	868
Capital allowance carry-forwards	-	633	633	100	733
Tax loss carry-forwards	-	204	204	(179)	25
	309	(545)	(236)	35	(201)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group 2007 RM'000	Group 2006 RM'000
Deductible temporary differences	531	1,091
Tax loss carry-forwards	4,729	3,024
Capital allowance carry-forwards	4,725	3,239
	9,985	7,354
@ 26%	2,359	1,912
@ 18%	136	-
	2,495	1,912

NOTES TO THE FINANCIAL STATEMENTS

9. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets (continued)
The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

10. Receivables, deposits and prepayments

		Group		Company	
		2007	2006	2007	2006
	Note	RM'000	RM'000	RM'000	RM'000
Trade					
Trade receivables	a	20,933	13,284	-	-
Less: Allowance for doubtful debts	b	(119)	(125)	-	-
		20,814	13,159	-	-
Other receivables		881	2,047	3	15
Deposits		257	213	-	-
Prepayments	c	792	550	-	-
		1,930	2,810	3	15
		22,744	15,969	3	15

Note a
Credit terms of trade receivables range from 60 - 180 days (2006: 60 - 180 days).

Note b
In 2007, bad debts written off against allowance for doubtful debts amounting to RM20,000.

Note c
Included in prepayments of the Group are deposits for the purchases of inventories amounting to RM638,000 (2006 - RM420,000).

11. Inventories

	Group	
	2007	2006
	RM'000	RM'000
At cost:		
Raw materials	2,756	3,588
Work-in-progress	428	501
Manufactured goods	1,419	765
Trading goods	7,024	5,557
	11,627	10,411
At net realisable value:		
Trading goods	1,034	770
	12,661	11,181

In 2007, raw materials amounting to RM291,000 have been fully written down.

NOTES TO THE FINANCIAL STATEMENTS

12. Cash and cash equivalents

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits placed with licensed banks	-	12,100	-	4,500
Cash and bank balances	3,683	4,751	735	680
	3,683	16,851	735	5,180

13. Capital and reserves

Share capital	Group and Company			
	Amount 2007 RM'000	Number of shares 2007 '000	Amount 2006 RM'000	Number of shares 2006 '000
Ordinary shares of RM1.00 each				
Authorised	60,000	60,000	60,000	60,000
Issued and fully paid	44,800	44,800	44,800	44,800

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's treasury shares that are held by the Company (see below), all rights are suspended until those shares are reissued.

Treasury shares

The shareholders of the Company, by a special resolution passed at the annual general meeting held on 22 June 2007, approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

For the year ended 31 December 2007, the Company repurchased 1,152,100 of its issued share capital from the open market. The average price paid for the shares repurchased was RM0.50 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased were retained as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965 and carried at cost.

Details of the shares buy-back were as follows:

2007	Average price paid RM	Highest price paid RM	Lowest price paid RM	Number of shares purchase and retained as treasury share units	Total consideration paid RM
January - March	0.520	0.540	0.500	228,500	118,986
April - June	0.490	0.500	0.480	133,400	65,596
July - September	0.500	0.520	0.475	50,000	25,281
October - December	0.480	0.500	0.460	252,400	122,262
2006					
September	0.425	0.425	0.420	32,700	13,893
October - December	0.511	0.640	0.420	455,100	232,349

13. Capital and reserves (continued)

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2007 if paid out as dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

14. Payables and accruals

		Group		Company	
		2007	2006	2007	2006
	Note	RM'000	RM'000	RM'000	RM'000
Trade					
Trade payables	a	9,428	5,134	-	-
Non-trade					
Other payables and accruals	b	7,324	5,939	182	173
Amount due to a subsidiary	c	-	-	5,120	5,120
		7,324	5,939	5,302	5,293
		16,752	11,073	5,302	5,293

Note a

(i) Credit terms of trade payables range from 30 - 120 days (2006 - 30 - 120 days).

(ii) In 2006, included in trade payables of the Group is an amount RM139,000 due to San Yes Automotive Technology Co. Ltd., a deemed substantial shareholder of the Company.

Note b

(i) Included in other payables and accruals of the Group is an amount of RM276,000 (2006 - RM362,000) accrued for the acquisition of plant and machineries of which RM38,000 (2006 - RM65,000) is due to substantial shareholders of subsidiaries.

(ii) Included in other payables and accruals of the Group is an amount of RM36,000 (2006 - RM36,000) of deposits received from a customer of a subsidiary.

Note c

The amount due to a subsidiary is non-trade in nature, unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

15. Loans and borrowings

	Group	
	2007 RM'000	2006 RM'000
Current		
Bank overdrafts - secured	437	821
Finance lease liabilities	-	48
	437	869

The secured bank overdrafts are subject to interest ranging between 0.75% - 1.50% (2006 - 0.75% - 1.50%) above lenders' base lending rates.

The bank overdrafts are secured by the following:

(i) fixed charge over certain freehold land and buildings (Note 3) and long term leasehold land (Note 5) of certain subsidiaries; and

(ii) corporate guarantee given by the Company. (Note 24)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2007			2006		
Group	**Minimum lease payments RM'000**	**Interest RM'000**	**Principal RM'000**	**Minimum lease payments RM'000**	**Interest RM'000**	**Principal RM'000**
Less than one year	-	-	-	49	(1)	48
Between one and five years	-	-	-	-	-	-
	-	-	-	49	(1)	48

In 2006, finance lease liabilities were subject to a fixed rate of 2.25% per annum.

NOTES TO THE FINANCIAL STATEMENTS

16. Operating profit/(loss)

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Revenue - manufacturing		55,598	58,879	-	-
- trading		15,220	18,265	-	-
- services		398	-	-	-
- dividends		-	-	-	1,889
		71,216	77,144	-	1,889
Cost of manufactured goods		(50,891)	(49,932)	-	-
Cost of goods sold		(10,632)	(13,573)	-	-
Cost of services		(1,006)	-	-	-
Gross profit		8,687	13,639	-	1,889
Operating (loss)/profit is arrived at after charging:					
Allowance for doubtful debts		15	25	-	-
Allowance for diminution in value of other investments	8	64	-	47	-
Amortisation of prepaid lease payments	5	36	36	-	-
Auditors' remuneration		113	95	22	22
Bad debts written off		83	-	-	-
Depreciation on investment properties	6	41	47	-	-
Depreciation on property, plant and equipment	3	3,561	4,422	1	1
Impairment loss on property, plant and equipment	3	13	2,463	-	-
Impairment loss on investment in subsidiaries	7	-	-	2,366	3,975
Inventories written down		291	-	-	-
Loss on disposal of property, plant and equipment		1	-	-	-
Loss on disposal of other investments		22	-	22	-
Personnel expenses (including key management personnel):					
- Contributions to Employees provident Fund		838	779	-	-
- Wages, salaries and others		10,670	10,509	16	17
Realised foreign exchange loss		5	-	-	-
Rental expenses for warehouse and staff housing facilities		102	163	-	-
and after crediting:					
Gain on disposal of property, plant and equipment		147	20	-	-
Gain on disposal of investment property		83	-	-	-
Gain on disposal of other investments		115	-	-	-
Gross dividend income from unquoted shares of subsidiaries					
- tax exempt		-	-	-	500
- 28% tax		-	-	-	1,389
Realised foreign exchange gain		45	27	-	-
Rental income from properties		193	243	-	-
Reversal of allowance for doubtful debts		1	-	-	-
Unrealised foreign exchange gain		12	-	-	-

Included in other operating expenses of the Group is an amount of Nil (2006 - RM1,654,000) relating to pre-operating expenses of a subsidiary which only commenced its operations in September 2006.

NOTES TO THE FINANCIAL STATEMENTS

17. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Company's Directors				
- Fees	122	136	122	136
- Remuneration	918	910	16	17
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	43	37	-	-
	1,083	1,083	138	153
Other Directors				
- Fees	165	-	-	-
- Remuneration	427	427	-	-
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	22	22	-	-
	614	449	-	-
Other key management personnel:				
- Remuneration	551	372	-	-
Total	2,248	1,904	138	153

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

18. Finance costs

	Group	
	2007 RM'000	2006 RM'000
Interest expense on:		
Bank overdrafts	18	44
Finance lease liabilities	1	4
Letter of credit	15	-
	34	48
Others	108	96
	142	144

19. Tax expense

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Current tax expense					
- current year		416	475	-	389
- (over)/under provision in prior year		(108)	113	-	(5)
Total current tax		308	588	-	384
Deferred tax expense					
- origination and reversal of temporary differences	9	44	590	-	-
- over provision in prior year		(79)	(45)	-	-
Total deferred tax		(35)	545	-	-
Real property gain tax		-	4	-	-
Total tax expense		273	1,137	-	384

NOTES TO THE FINANCIAL STATEMENTS

19. Tax expense (continued)

Reconciliation of effective tax expense

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(Loss)/Profit before taxation	(771)	655	(2,751)	(2,245)
Tax calculated using Malaysian tax rates*	(230)	183	(743)	(629)
Non-deductible expenses	260	473	743	1,195
Tax exempt income	-	(37)	-	(177)
Tax incentives	(189)	(239)	-	-
Effect of changes in tax rates **	(11)	-	-	-
Effect of different tax rates in foreign jurisdiction ***	47	-	-	-
Effect of deferred tax asset not recognised	583	685	-	-
	460	1,065	-	389
(Over)/Under provision in prior year	(187)	68	-	(5)
Real property gain tax	-	4	-	-
	273	1,137	-	384

* With effect from year of assessment 2004, a subsidiary with paid-up capital of RM2.5 million and below at the beginning of the basis period for a year of assessment is subject to corporate tax at 20% on chargeable income up to RM500,000.

** With effect from year of assessment 2007, corporate tax rate is at 27%. The Malaysian Budget 2008 also announced the reduction of corporate tax rate to 26% with effect from year of assessment 2008 and to 25% with effect from year of assessment 2009 respectively. Consequently deferred tax assets and liabilities are measured using these tax rates.

*** A subsidiary in Singapore (see note 7) operates in a tax jurisdiction with a lower tax rate of 20%.

20. (Loss)/Earnings per ordinary share - Group

Basic (loss)/earnings per ordinary share

The calculation of basic (loss)/earnings per ordinary share at 31 December 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2007	**2006**
	RM'000	**RM'000**
(Loss)/Profit for the year attributable to ordinary shareholders	(898)	510

Weighted average number of ordinary shares

	2007	**2006**
	'000	**'000**
Issued ordinary shares at 1 January	44,800	44,800
Effect of treasury shares held	(816)	(68)
Weighted average number of ordinary shares at 31 December	43,984	44,732

	2007	**2006**
	sen	**sen**
Basic (loss)/earnings per ordinary share	(2.04)	1.14

NOTES TO THE FINANCIAL STATEMENTS

21. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segment, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing borrowings and expenses, and corporate assets (primarily the Company's headquarters) and head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Business segments

The Group comprises the following main business segments:

Automotive parts	Manufacturing and trading of carpet of all description and manufacturing of automotive braking components and motorcycle components.
Machinery parts	Trading of machinery and industrial parts supplies.
Battery products	Manufacturing and trading of rechargeable lithium liabilities of all description.
Consultancy service, environment	Project development, carbon advisory and carbon asset management services.

Geographical segments

The engineering consultancy service, environment segment is operates in Singapore while the other segments operate solely in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

21. **Segment reporting (continued)**

	Automotive part		Machinery parts		Battery products		Consultancy service & environment		Elimination		Consolidated	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Business segments												
Revenue from external customers	55,598	58,871	15,220	18,265	-	8	398	-	-	-	71,216	77,144
Inter-segment revenue	-	-	23	24	-	-	-	-	(23)	(24)	-	-
Total revenue	55,598	58,871	15,243	18,289	-	8	398	-	(23)	(24)	71,216	77,144
Segment results	(307)	3,877	722	1,106	(127)	(4,177)	(676)	-	107	-	(281)	806
Unallocated expenses											(390)	(292)
											(671)	514
Finance costs											(142)	(144)
Interest income											42	285
(Loss)/Profit before taxation											(771)	655
Tax expense											(273)	(1,137)
Loss after taxation											(1,044)	(482)
Minority interests											146	992
(Loss)/Profit for the year											(898)	510
Segment assets	53,661	48,734	23,695	22,769	76	122	1,900	-	(2,055)	(1,545)	77,277	70,080
Unallocated assets											4,464	7,554
Total assets											81,741	77,634
Segment liabilities	14,968	11,208	2,528	1,925	262	181	1,411	-	(2,162)	(1,545)	17,007	11,769
Unallocated liabilities											1,265	1,169
Total liabilities											18,272	12,938
Capital expenditure Depreciation	1,834	3,095	31	317	-	509	23	-	-	-	1,888	3,921
- property, plant and equipment	3,163	3,368	378	397	9	657	11	-	-	-	3,561	4,422
- prepaid lease payments	16	16	20	20	-	-	-	-	-	-	36	36
- investment properties	6	6	35	41	-	-	-	-	-	-	41	47
Gain on disposal of property, plant and equipment	(146)	(1)	(1)	(19)	-	-	-	-	-	-	(147)	(20)
Gain on disposal of investment properties	-	-	(83)	-	-	-	-	-	-	-	(83)	-
Loss on disposal of property, plant and equipment	1	-	-	-	-	-	-	-	-	-	1	-
Impairment loss on property, plant and equipment	-	-	-	-	13	2,436	-	-	-	-	13	2,436

	Malaysia		Singapore		Eliminations		Consolidated	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Geographical segments								
Revenue from external customers	70,818	77,144	398	-	-	-	71,216	77,144
Segment assets	76,413	70,080	1,900	-	(1,036)	-	77,277	70,080
Capital expenditure	1,865	3,921	23	-	-	-	1,888	3,921

NOTES TO THE FINANCIAL STATEMENTS

22. **Financial instruments**

Financial risk management objectives and policies

Exposure to credit, foreign currency, liquidity and cash flow, and interest rate risk arises in the normal course of the Group and Company's business. The Group and Company's overall business strategies, their tolerance to risk and their general risk management philosophy are guided by policies set by the Directors. The Board of Directors regularly review such policies and the Directors actively participate in the daily activities of the Group and Company to ensure that policies set in place are adhered to.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Formal credit evaluations are performed on new customers while periodic informal credit evaluations are performed for monitoring purposes. The Group does not require collateral in respect of financial assets and credit terms and limits are set for their customers.

The Group has trade account receivables from manufacturing and sales of its automotive products for which risk of non-payment is affected by conditions mainly in the automotive industry.

As at 31 December 2007, approximately 57% (2006 - 58%) of the Group's trade receivables were due from 12 (2006 - 12) major customers. Trade receivables balances from these 12 (2006 - 12) major customers amounted to RM11,765,000 (2006 - RM7,623,000). The Directors are closely monitoring the credit risk exposure on these major customers. Based on past trends, the Directors do not view the credit risk exposure on these customers to be significant as they are the major automotive assemblers and manufacturers in the country.

The carrying amount of trade and other receivables represents the Group's maximum exposure to credit risk.

Foreign currency risk

The Group has exposure to foreign currency risk as a result of its trade purchases that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen, EURO, Singapore Dollar and Thai Baht.

Since the Malaysian Government has de-pegged Ringgit Malaysia against the US Dollar at a managed floating rate, the Group's direct exposure to foreign currency risk with regards to the US Dollar is minimal.

The Group does not engage in foreign currency hedging on its foreign currency exposures but the management is monitoring the exposure to foreign currency risk on an ongoing basis.

Liquidity and cash flow risk

Prudent liquid risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Interest rate risk

The Group and Company's income and operating cash flows are substantially independent of changes in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

22. Financial instruments (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

	2007			2006		
	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
Group						
Financial assets						
Deposits placed with licensed banks	-	-	-	2.95	12,100	12,100
Financial liabilities						
Bank overdrafts - secured	7.50%	437	437	7.00	821	821
Company						
Financial assets						
Deposits placed with licensed banks	-	-	-	2.91	4,500	4,500

Fair values

The carrying amounts of cash and cash equivalents, receivables, deposits and prepayments, payables and accruals and loans and borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The Company provides financial guarantees to a bank for credit facilities extended to a subsidiary. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiary defaulting on the credit lines is remote.

Fair value of quoted investments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

In respect of amount due from subsidiaries, it is not practical to estimate the fair values due principally to a lack of specific repayment terms entered into by the parties involved and without incurring excessive costs.

23. Capital commitments

	Group	
	2007 RM'000	2006 RM'000
Property, plant and equipment		
Contracted but not provided for in the financial statements	195	349

NOTES TO THE FINANCIAL STATEMENTS

24. Contingency

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Group		Company	
	2007 RM'000	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
Corporate guarantees (unsecured)				
Guarantees given to a financial institution for credit facilities granted to a subsidiary	-	-	437	821
	-	-	437	821

25. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senor management of the Group.

The significant related party transactions, other than key management personnel compensation, are as follows:

	Transaction value year ended 31 December	
	2007 RM'000	**2006 RM'000**
Company		
Subsidiaries		
Dividend income receivable		
- Machinery & Industrial Supplies Sdn. Bhd	-	(1,389)
- Sanyco Grand Industries Sdn. Bhd.	-	(500)
	-	(1,889)

Other related party transactions

Significant transactions with substantial shareholders of the Company and its subsidiaries are as follows:

	Group	
	2007 RM'000	**2006 RM'000**
San Yes Automotive Technology Co. Ltd., a substantial shareholder of the Company (deemed interested through MIYES Holdings Sdn. Bhd.)		
Royalties payable	48	86
Purchase of raw materials	278	105
Purchase of plant and machinery	11	368
Sugihara Hosei Kogyo Co. Ltd., a shareholder of Sugihara Grand Industries Sdn. Bhd.		
Technical assistance fees payable	40	34
Royalties payable	470	541
Purchase of plant and equipment	5	144

The terms and conditions for the above transactions are based on normal trade terms. All the amounts outstanding are unsecured and expected to be settled by cash.

26. Business combination

On 29 June 2007, the Company acquired 79,505 ordinary shares of SGD$1.00 each, representing 61.39% of the issued and paid-up share capital of Kyoto Energy Pte. Ltd. ("Kyoto"), for a total cash consideration of SGD$450,000, which is equivalent to Ringgit Malaysia RM1,017,000.

The fair values of assets acquired and liabilities assumed in the acquisition of the subsidiary and its cash flow effects are as follows:

	Note	At date of acquisition RM'000
Non-current assets		
Property, plant and equipment		11
Current assets		1,056
Current liabilities		(696)
Net current assets		360
Minority shareholders' interest		(143)
Net assets		228
Goodwill arising from consolidation	4	789
Purchase consideration paid, satisfied in cash	7	1,017
Cash and cash equivalents of subsidiaries		(1,056)
Cash flow on acquisition, net of cash acquired		(39)

The acquisition of the subsidiary had the following effect on the Group's operating results, assets and liabilities as at 31 December 2007.

From date of acquisition to 31.12.2007	**RM'000**
Revenue	398
Cost of sales	(1,006)
Gross profit	(608)
Administrative expenses	(68)
Operating loss	(676)
Finance costs	(2)
Loss after tax	(678)
Minority shareholders' interest	146
Increase in the Group's loss attributable to shareholders	(532)

NOTES TO THE FINANCIAL STATEMENTS

26. Business combination (continued)

Balance as at 31.12.2007	**RM'000**
Non-current assets	
Property, plant and equipment	24
Current assets	1,087
Current liabilities	(1,411)
Net current assets	(324)
Net assets acquired	(300)
Goodwill arising from consolidation	789
Increase in Group's net assets	489

27. Significant event during the year

On 29 June 2007, the Company acquired 79,505 ordinary shares of SGD$1.00 each, representing 61.39% of the issued and paid-up share capital of Kyotoenergy Pte. Ltd. ("Kyoto"), for a total cash consideration of SGD$450,000, which is equivalent to Ringgit Malaysia RM1,017,000.

SHAREHOLDINGS STATISTICS

as at 25 March 2008

Analysis of shareholdings

Authorised Share Capital	:	RM60,000,000
Issued and Paid-Up Share Capital	:	RM44,800,000*
Class of Shares	:	Ordinary Shares of RM1.00 each
Voting Rights	:	One vote per share

(Against Total Issued Capital of 43,444,900)

Size of Holdings	Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 - 99	6	0.3979	183	0.0004
100 - 1,000	368	24.4032	351,875	0.8099
1,001 - 10,000	867	57.4934	4,094,300	9.4241
10,001 - 100,000	234	15.5172	7,344,034	16.9042
100,001 -2,273,494	32	2.1220	15,974,508	36.7696
2,273,494 and above	1	0.0663	15,680,000	36.0917
Total	1508	100.0000	43,444,900	100.0000

Total no of shareholders	:	1,508
Total Shareholdings	:	43,444,900
Total Percentage (%)	:	100.0000

* Includes 1,355,100 SMIS Shares bought back by the Company and held as treasury shares as at 25 March 2008.

SHAREHOLDINGS STATISTICS

as at 25 March 2008

THIRTY LARGEST SHAREHOLDERS/DEPOSITORS

NO	NAME OF SHAREHOLDERS/DEPOSITORS	SHARE HOLDINGS	HOLDINGS PERCENTAGE
1	MIYES HOLDINGS SDN BHD	15,680,000	36.0917
2	MOHD RIANI BIN OSMAN	2,139,336	4.9243
3	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR RBS COUTTS BANK LTD (HK BRANCH)	2,000,000	4.6035
4	CHANG KUN-SHENG	1,948,700	4.4855
5	YAP SIEW FOONG	1,263,730	2.9088
6	TEH HEAN IT	1,211,600	2.7888
7	NG ENG BEE	1,185,010	2.7276
8	NG WAI KEE	640,900	1.4752
9	NG ENG BEE	560,000	1.2890
10	YEOH KEAN HUA	430,000	0.9898
11	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YAP MEOW LIM (100463)	400,000	0.9207
12	CHONG TECK HOO @ CHAM TECK HOO	387,089	0.8910
13	ENG KIM LIAN	380,964	0.8769
14	CHAM BEE SENG @ CHIAM BEE SENG	350,089	0.8058
15	AMBANK (M) BERHAD PLEDGED SECURITIES ACCOUNT FOR MOHD RIANI BIN OSMAN (SMART)	250,000	0.5754
16	NG YIK FU	245,000	0.5639
17	LOH CHAI HUN	200,000	0.4604
18	ANG HUAT KEAT	189,700	0.4366
19	JF APEX NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR VOON SZE LIN	179,000	0.4120
20	ONG LEA PING	174,600	0.4019
21	HLG NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR BEK THIAM HONG	171,000	0.3936
22	CITIGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHAI GUAN (474333)	170,000	0.3913
23	CHAN SENG CHEONG	157,500	0.3625
24	HLG NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOW MENG SOON	156,000	0.3591
25	FOO TECK SENG	150,000	0.3453
26	CHAM BEE SIM	149,572	0.3443
27	NG KWEE ENG	142,018	0.3269
28	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ANG HUAT KEAT	136,700	0.3147
29	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YAP LIP YUEN	131,000	0.3015
30	TONG YOON CHONG @ THONG CHEONG CHOY	130,000	0.2992
TOTAL		31,309,508	72.0672

SHAREHOLDINGS STATISTICS

as at 25 March 2008

SUBSTANTIAL SHAREHOLDERS AS AT 25 MARCH 2008

Name of Substantial Shareholder	Direct Interest No. of Shares	Direct Interest % of Issued Capital*	Indirect Interest No. of Shares	Indirect Interest % of Issued Capital*
MIYES Holdings Sdn Bhd ("MIYES")	15,680,000	36.09	-	-
Umberston Holdings Sdn Bhd ("Umberston")	-	-	15,680,000(1)	36.09
San Yes Automotive Technology Co., Ltd	-	-	15,680,000(1)	36.09
Ng Kwee Eng	142,018	0.33	15,680,000(2)	36.09
Yap Siew Foong	1,263,730	2.91	15,680,000(2)	36.09
Mohd Riani bin Osman	2,389,336	5.50	-	-

*Excludes 1,355,100 Ordinary Shares of RM1.00 each bought back by the Company and held as treasury shares as at 25 March 2008

(1)deemed interested through MIYES
(2)deemed interested through Umberston and MIYES

DIRECTORS' INTERESTS AS AT 25 MARCH 2008

Name of Substantial Shareholder	Direct Interest No. of Shares	Direct Interest % of Issued Capital*	Indirect Interest No. of Shares	Indirect Interest % of Issued Capital*
Mohd Riani bin Osman	2,389,336	5.50	-	-
Yap Siew Foong	1,263,730	2.91	15,680,000(1)	36.09
Ng Wai Kee	700,900	1.61	15,680,000(1)	36.09
Cham Bee Sim	249,572	0.57	15,680,000(1)	36.09
Danny Ng Siew L'Leong	-	-	-	-
Pauline Teh @ Pauline Teh Abdullah	-	-	-	-
Mohamed Ghazali bin Kamal Baharein	-	-	-	-
Foo Lee Khean	-	-	-	-

*Excludes 1,355,100 Ordinary Shares of RM1.00 each bought back by the Company and held as treasury shares as at 25 March 2008

(1)deemed interested through Umberston and MIYES

LIST OF PROPERTIES

as at 31 December 2007

Registered Beneficial Owner	Location	Date of Valuation	Description and Existing Use	Tenure	Approximate Age of Property (Year)	Built Up area (Sq.m)	Net book Value as at 31 December 2007 (RM)
Machinery & Industrial Supplies Sdn Bhd	No. 19, Jalan Dua, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur	June 1, 2000	A double storey detached warehouse with 3 storey frontal office. Warehouse	Leasehold 66 years	11	3,866.5	2,880,400
Grand Carpet Industries Sdn Bhd	Lot 3, Jalan Sultan Hishamuddin 2, Kawasan Perusahaan Selat Kelang Utara, 42000 Port Klang, Selangor Darul Ehsan	June 1, 2000	Industrial land erected with single and double storey office annexed. Office and factory	Leasehold 99 years	16	10,310.26	6,809,240
Sanyco Grand Industries Sdn Bhd	No. 3, Jalan U1/15, HiCom Glenmarie Industrial Park, 40150 Shah Alam, Selangor	June 1, 2000	Two single storey factories with office annexed. Office and factory	Freehold	9	2,140.37	3,711,596
Machinery & Industrial Supplies Sdn Bhd	No. 50 & 52, Jalan Brunei Utara, Kuala Lumpur	June 1, 2000	2 adjoining units of 4 storey shop office. The ground floor to the second floor are rented out whilst the third floor is vacant.	Freehold	28	1,197.1	339,542
Machinery & Industrial Supplies Sdn Bhd	Lot 34, Jalan B 25/B, Taman Perindustrian AXIS, Section 25, 40400 Shah Alam, Selangor Darul Ehsan	June 1, 2000	One unit of 3 storey shop office. Rented	Freehold	11	586.60	476,000
Machinery & Industrial Supplies Sdn Bhd	No. 21 & 23 (Developer's Plot No. 119 & 118), Taman Kenanga, Bandar Baru Salak Tinggi, 83800 Dengkil, Selangor Darul Ehsan.	Dec 23, 2005	Two units of an intermediate and end lot of three storey shophouse. The property is vacant	Freehold	7	429.21	345,600
Grand Carpet Industries Sdn Bhd	Parcel No. A-42-09(E), Berjaya Star City, Jalan Imbi, Section 52, 55100 Kuala Lumpur	June 1, 2000	A 42nd Floor service suite within a high-rise commercial building housing retails and service apartment block. Rented	Freehold	5	53.70	270,827

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Ninth Annual General Meeting of the Company will be held at Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Friday, 16 May 2008 at 10.00 a.m. to transact the following business:-

AGENDA

As Ordinary Business

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2007 together with the Directors' and Auditors' Reports thereon. *Ordinary Resolution 1*

2. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2007. *Ordinary Resolution 2*

3. To re-elect the following Directors retiring under Article 103 of the Company's Articles of Association:-
   i) Yap Siew Foong *Ordinary Resolution 3*
   ii) Danny Ng Siew L'Leong *Ordinary Resolution 4*
   iii) Pauline Teh @ Pauline Teh Abdullah *Ordinary Resolution 5*

4. To re-elect Mr Foo Lee Khean as Director who is retiring under Article 109 of the Company's Articles of Association. *Ordinary Resolution 6*

5. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. *Ordinary Resolution 7*

As Special Business

To consider and, if thought fit, to pass the following resolutions:-

6. Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares

   "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and from time to time until the conclusion of the next Annual General Meeting upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the issued share capital of the Company for the time being, subject always to the approval of all relevant regulatory bodies being obtained for such allotment and issue." *Ordinary Resolution 8*

NOTICE OF ANNUAL GENERAL MEETING

7. Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")

"THAT, pursuant to Paragraph 10.09 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company and its subsidiaries ("SMIS Group") be and are hereby authorised to enter into any of the recurrent transactions of a revenue or trading nature as set out under Section 2.3 of Part A of the Circular to Shareholders dated 24 April 2008 with the related parties mentioned therein which are necessary for the SMIS Group's day-to-day operations, subject further to the following:-

(i) the transactions are in the ordinary course of business on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

(ii) disclosure of the aggregate value of the transactions of the Proposed Shareholders' Mandate conducted during the financial year will be disclosed in the Annual Report for the said financial year,

AND THAT such approval shall continue to be in force until:-

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the Meeting, the authority is renewed;

(ii) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or

(iii) revoked or varied by the Company in a general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate."

Ordinary Resolution 9

8. Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares

"THAT subject to the Companies Act, 1965 ("Act"), the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Securities and the approvals of all relevant governmental and/or regulatory authorities (if any), the Company be and is hereby authorised to utilise an amount not exceeding the audited retained profits and/or share premium of the Company as at 31 December 2007 of RM3.2 million and RM4.9 million respectively to purchase such amount of ordinary shares of RM1.00 each in the Company

NOTICE OF ANNUAL GENERAL MEETING

("Proposed Share Buy-Back") as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased and/or held pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital of the Company;

THAT an amount not exceeding the Company's share premium account and retained profits account be allocated by the Company for the Proposed Share Buy-Back;

THAT authority be and is hereby given to the Directors of the Company to decide at their absolute discretion to either retain the shares so purchased as treasury shares (as defined in Section 67A of the Act) and/or to cancel the shares so purchased and if retained as treasury shares, may resell the treasury shares and/or to distribute them as share dividend and/or subsequently cancel them;

THAT the authority conferred by this resolution will be effective immediately upon the passing of this resolution and will expire at:

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company (being the Tenth ("10th") AGM of the Company), at which time the said authority will lapse unless by an ordinary resolution passed at a general meeting of the Company, the authority is renewed, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the 10th AGM of the Company is required by law to be held; or

(iii) revoked or varied by an ordinary resolution passed by the shareholders in a general meeting;

whichever occurs first but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant governmental and/or regulatory authorities (if any);

AND THAT the Directors of the Company be authorised to take all steps necessary to implement, complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Share Buy-Back as may be agreed or allowed by any relevant governmental and/or regulatory authority."

Ordinary Resolution 10

BY ORDER OF THE BOARD
LIEW IRENE (MAICSA 7022609)
CHOONG LEE WAH (MAICSA 7019418)
Secretaries

Selangor Darul Ehsan
Date: 24 April 2008

NOTICE OF ANNUAL GENERAL MEETING

NOTES:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

2. A member may appoint not more than two (2) proxies to attend and vote at the same meeting. Where a member appoints the maximum of two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of the attorney.

4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for holding the meeting or any adjournment thereof.

5. EXPLANATORY NOTES ON SPECIAL BUSINESS

(i) Ordinary Resolution No. 8 - Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares

Ordinary Resolution No. 8, if passed, will empower the Directors to allot and issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

(ii) Ordinary Resolution No. 9 - Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")

Please refer to the Circular to Shareholders dated 24 April 2008 for further information.

(iii) Ordinary Resolution No. 10 - Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares

Please refer to the Share Buy-Back Statement dated 24 April 2008 for further information.

Statement accompanying Notice of Ninth Annual General Meeting pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

For further details of Directors standing for re-election at the Ninth Annual General Meeting, please refer to pages 7-8 of the Annual Report

PROXY FORM

SMIS CORPORATION BERHAD (491857-V)
(Incorporated in Malaysia)

No of Shares

I/We, ...

of ....

being a member of SMIS CORPORATION BERHAD hereby appoint ....

....

of ....

or failing him/her ....

of ....

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Ninth Annual General Meeting of the Company to be held at Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Friday, 16 May 2008 at 10.00 a.m. and at any adjournment thereof in respect of my/our shareholding in the manner indicated below:

No.	Resolution	For	Against
Ordinary Resolution 1	Adoption of the Audited Financial Statements for the financial year ended 31 December 2007 and Directors' and Auditors' Reports		
Ordinary Resolution 2	Approval of Directors' Fees		
Ordinary Resolution 3	Re-election of Madam Yap Siew Foong as Director (Article 103)		
Ordinary Resolution 4	Re-election of Mr Danny Ng Siew L'Leong as Director (Article 103)		
Ordinary Resolution 5	Re-election of Ms Pauline Teh @ Pauline Teh Abdullah as Director (Article 103)		
Ordinary Resolution 6	Re-election of Mr Foo Lee Khean as Director (Article 109)		
Ordinary Resolution 7	Re-appointment of Auditors		
Ordinary Resolution 8	Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares		
Ordinary Resolution 9	Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Ordinary Resolution 10	Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares		

(Please indicate with an "X" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit.)

Dated this ....day of 2008

....
Signature of Shareholder or Common Seal

NOTES:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint not more than (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

2. A member may appoint not more than two (2) proxies to attend and vote at the same meeting. Where a member appoints the maximum of two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of the attorney.

4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for holding the meeting or any adjournment thereof.

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STAMP

THE SECRETARY
SMIS CORPORATION BERHAD
Lot 6.05, Level 6,
KPMG Tower, 8 First Avenue,
Bandar Utama,
47800 Petaling Jaya,
Selangor Darul Ehsan.
Malaysia.

--Please fold here to seal--

SMIS Corporation Berhad
(491857-V)
(Incorporated in Malaysia under the Companies Act, 1965)

No.19, Jalan Dua, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur, Malaysia
Tel: 03-9221 9898 (10 lines)   Fax: 03-9221 7878